

AR26

1979 Annual Report
Sunlite Oil Company Limited

DESCRIPTION OF BUSINESS

The company was incorporated March 2, 1945, under the laws of the Province of Alberta, Canada. At the Annual General Meeting of Shareholders held December 14, 1978, a plan to change the Company's jurisdiction of incorporation from the Canadian Province of Alberta to the State of Wyoming in the United States of America was approved by the Shareholders of the Company. The Company is presently in the process of obtaining certain requests for ruling from the respective governments before proceeding with the "Domestication."

Sunlite is engaged in the exploration for and development of oil and gas properties and the exploration for mineral properties. Producing interests are held in Alberta, British Columbia and Saskatchewan and in Louisiana, U.S.A. The principal exploratory interests of the company are located throughout Canada and the U.S.A. and in the British, Dutch and German Sectors of the North Sea.

ANNUAL MEETING AND FORM 10-K

The Annual General Meeting of shareholders will be held on Wednesday, December 12, 1979, at ten o'clock A.M. (local time) at the 18th Floor Auditorium of the Norcen Tower, 715-Fifth Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with a proxy statement and information circular and form of proxy, is being mailed with this report.

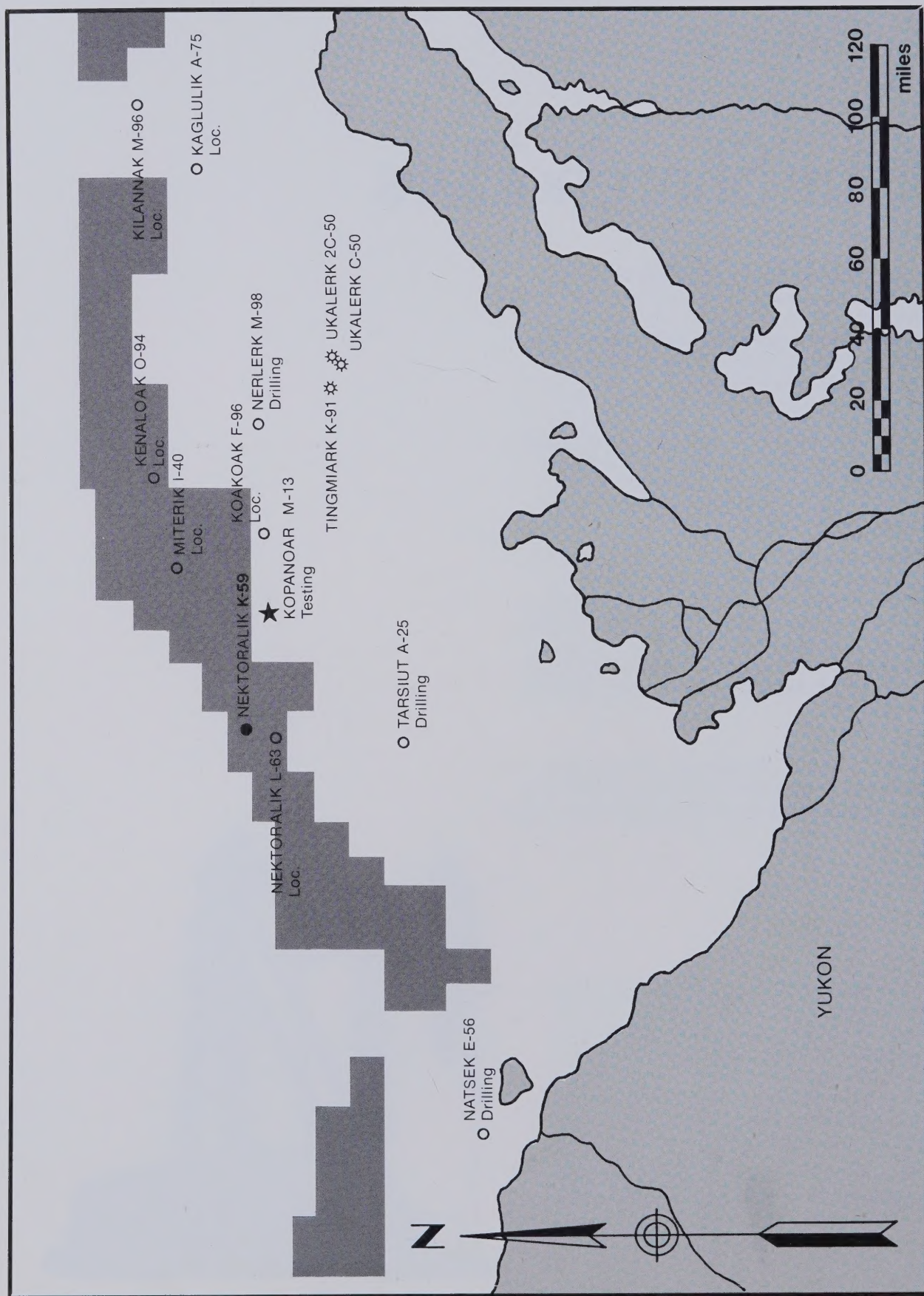
Sunlite will provide its Form 10-K Annual Report upon written request from its shareholders.

To Our Shareholders

HIGHLIGHTS

- Beaufort Sea —
Dome et al Kopanoar M-13 located approximately ten miles from the Company's acreage is capable of producing 12,000 barrels per day.
- Bridge Creek —
Yields Smackover oil discovery from the McFarlane et al Alvin Farley No. 1 tested at rates in excess of 800 barrels of 40 gravity oil and 1.2 million cubic feet of gas per day. Sunlite has 10½ percent overriding royalty interest.
- San Antonio Bay —
Sunlite and its partners drilled a Frio Sand discovery, the No. 1 State Tract 70 well. Absolute open flow potential is calculated at 3,000,000 cubic feet of gas daily. Sunlite owns a 12.73 percent working interest. Lower oil zone flowed 170 barrels of 50 gravity oil, 848,000 cubic feet of gas and one barrel of water.
- Holland —
Block P/6 is the site of a Bunter sand discovery which flowed at rates up to 33.5 million cubic feet per day. Sunlite's interest is 1¼ percent of net profits.





BEAUFORT SEA

- Sunlite Royalty Interest
- Location or Drilling Well
- Oil Well
- ✱ Gas Well

★ Discovery Well

Exploration

BEAUFORT SEA

A major oil discovery in the Beaufort Sea was announced by Dome Petroleum Ltd. confirming the oil potential of the region and raising expectations that the offshore Arctic Ocean contains vast oil reserves. Sunlite owns a one percent overriding royalty on approximately three million acres of permits which are well situated to participate in future discoveries. According to present information there are about twenty geological structures on Sunlite's holdings, each having potential of a billion barrels or greater.

Tests of the well, Dome et al Kopanoar M-13, located about ten miles south and ten miles east of Sunlite's holdings, confirmed an oil productive interval exceeding 200 feet at a depth of 11,500 feet. Testing of a 40 foot interval over a three hour period through 3½ inch tubing exceeded 6,000 barrels of oil a day with a ¾ inch choke and 1370 pounds per square inch tubing pressure. Consultants retained by the company have calculated that the well will be capable of sustained production exceeding 12,000 barrels a day of oil. A Dome spokesman said the Kopanoar reserves "have the potential of going into the billions of barrels," but an accurate determination can't be made until several follow-up wells are drilled. The Kopanoar structure is about 55 square miles in area.

Testing at the Ukalerk 2C-50 well has been completed this year. The well flowed three million cubic feet of gas per day through a restricted choke from a sand at 6600 feet giving a calculated open flow potential of 85 million cubic feet per day. Similar results were obtained on the previous well. These tests confirm the Tingimiark-Ukalerk gas structure, which is reported to be 155 square miles in area.

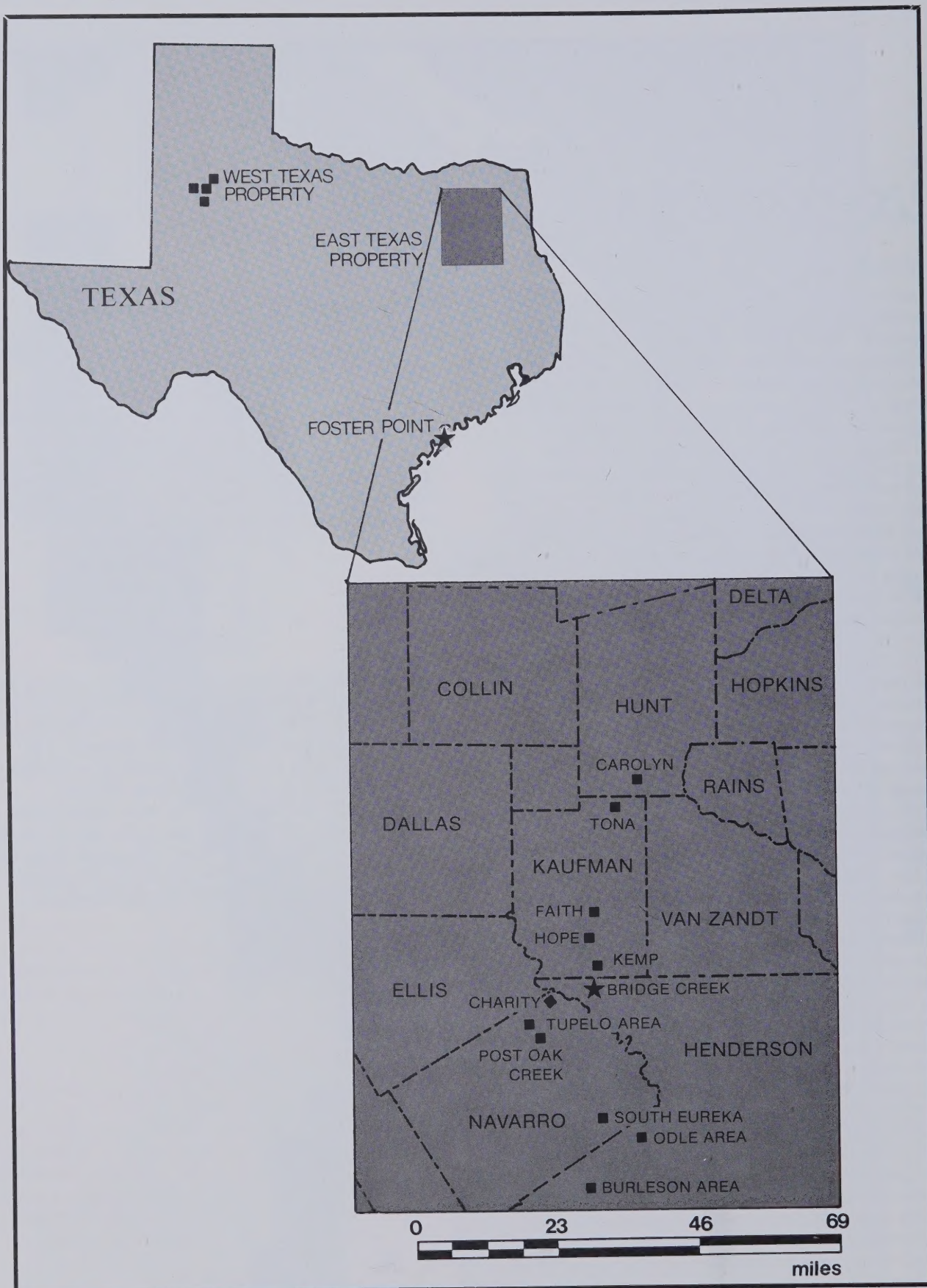
The first discovery of oil on the one well drilled to date on Sunlite's holdings in the Beaufort Sea was previously reported. Dome Hunt Nektoralik K-59 (Sunlite one percent overriding royalty) was drilled to a total depth of 9,154 feet in 1977. Further drilling was made impractical when the well encountered high pressure zones. Tests of this 42 square mile structure yielded oil from the lower zone, oil and gas from the middle zone and gas and condensate from an upper zone about 1,000 feet above the base of the well. Since the sands appear to be better developed at greater depths and thicken greatly off of the crest of the structure wells drilled deeper and on the flanks have a good chance of finding thick oil and/or gas zones. Dome plans a well to test these prospects, possibly during the next drilling season.

These tests confirm the Mackenzie

Delta-Beaufort Sea area as a major petroleum province. The Canadian Geological Service and Dome have projected the area with a potential of 94 billion barrels of oil and oil equivalent of gas. Fifteen exploratory tests are expected to be drilled over the next five years, a number of which will be on Sunlite's holdings. If the program is as successful as anticipated, commercial production is expected in 1985. While it is not possible at this time to project the timing or amount of future income to the Company, it is apparent that the potential is very large.

CANADA

During the year Sunlite participated in drilling thirty wells in Canada including fourteen development wells in the Hamilton Lake Field (Sunlite 2.5 percent) and one in the Benton Field (Sunlite 20 percent). The development wells were drilled primarily to increase productive capacity in existing fields. Fifteen exploratory wells (two net wells) were drilled which resulted in one oil well, three gas wells and eleven dry holes. Of the fifteen exploratory tests, eight wells were farmed out and drilled at no cost to the Company including seven dry holes and one gas discovery.



TEXAS

- ★ Discovery Well
- Sunlite Interest Acreage

TEXAS

During 1978 six prospects in East Texas were farmed out to McFarlane Oil Company, Inc. with Sunlite retaining a 10½ percent overriding royalty interest.

The first test on the Bridge Creek prospect in the eastern portion of Henderson County, Texas was completed as a Smackover oil discovery. The McFarlane et al Alvin Farley No. 1 tested at rates in excess of 800 barrels of 40 gravity oil and 1.2 million cubic feet per day through an 18/64 inch choke from a perforated interval of 8932 to 8980 feet. Three additional wells have been completed with similar results and a fifth outstep is currently drilling on Sunlite interest acreage. Sunlite has a 10½ percent interest in approximately 3500 acres in the prospect area. The operator reports that negotiations are being held with various oil and gas purchasers and it is expected that the field will be placed on production early next year. This is a significant discovery both to Sunlite and the industry and has set off considerable geological and leasing activity over a wide area.

A second Smackover exploratory test on the East Texas group, the Odle prospect in Freestone County, Texas, found the objective zone lacking porosity and the well was plugged and abandoned.

Three additional prospects included in the McFarlane farmout are in the Bridge Creek area. One of these is planned for drilling this year and the remaining two next year.

Following the Bridge Creek discovery, Sunlite formed a group which has acquired about 20,000 acres of leases on an additional five prospective areas in East Texas in Navarro, Henderson, and Kaufman Counties. Sunlite has a 20 percent working interest in this program. Seismic and geological work is underway to further define prospects in these areas.

Last year we reported that Sunlite Oil Company had a 25 percent carried working interest in a well drilled in Travis County, Texas known as the McFarlane #1 Sunset Ranch. A thick gross section of the Ellenburger formation was encountered which carried hydrocarbon shows. Unfortunately this section was very tight and was not extensively fractured. The well was subsequently plugged and abandoned after testing. This rank wildcat created considerable interest in the area and we anticipate that additional drilling by others may take place in the future. Another prospect on this same trend, the Stillhouse in Bell County, Texas has been farmed out to another company which plans to drill an Ellenburger test late this year or early next year.

In West Texas Sunlite and its partners have completed seismic interpretation of prospective areas

in Terry and Hockley County. One of these is scheduled for drilling early next year if certain leasing problems in the area can be resolved. The other prospects are not attractive and will be dropped.

In the Middle Gulf Coast area near Corpus Christi, Sunlite and its partners drilled a Frio Sand discovery well in San Antonio Bay, Calhoun County, Texas, the #1 State Tract 70 well. The upper gas zone flowed at the maximum daily rate of 1,397,000 cubic feet of gas and 41 barrels of 64 gravity condensate on four point test. Flowing tubing pressure was 1,778 psi and bottomhole flowing pressure was 2,323 psi through a 14/64 inch choke. Production was from perforations 8,843–52 feet in “8800” foot sand. Absolute open flow potential is calculated to be 3,000,000 cubic feet of gas daily and shut-in tubing pressure 2,350 psi and bottomhole shut-in pressure 3,218 psi.

The lower oil zone flowed 170 barrels of 50 gravity oil, 848,000 cubic feet of gas and one barrel of water a day from overall perforation 9,105–34 feet in “9,100” foot sand.

Sunlite owns a 12.73 percent working interest in this well and approximately 1,344 acres are in the prospect area. A second well on this prospect will be drilled after the first of the year and another similar prospect has been acquired along with our partners in the same area which will also be tested.

SANTA BARBARA CHANNEL

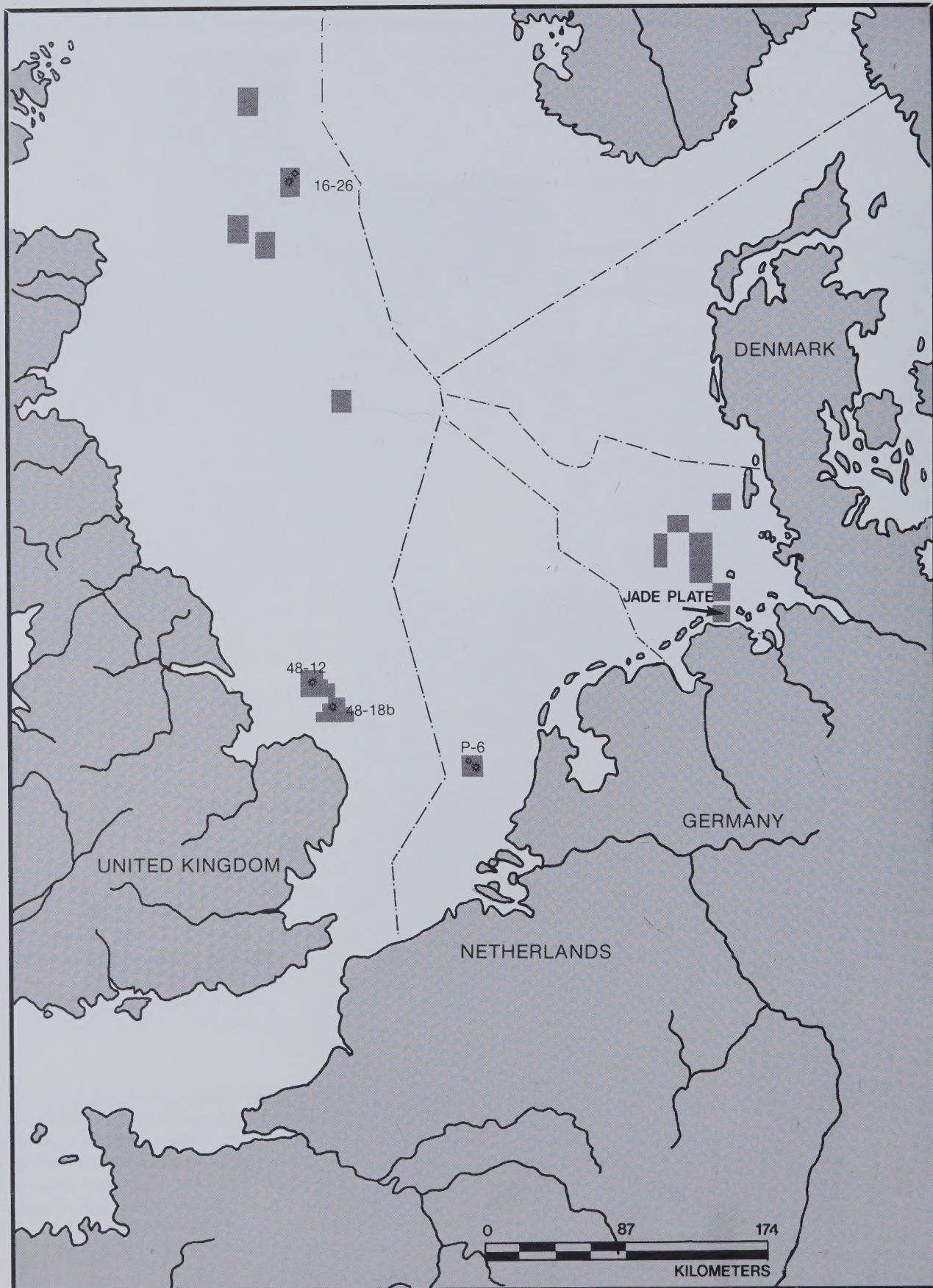
Sunlite participated with a group in the California Federal lease sale, which was successful bidder for Block 31 in the Santa Barbara Channel. While the Sunlite group paid only \$155,000 for the block successful bids by others on offsetting tracts were \$1.5 million to \$5 million, and it is expected that drilling on one or more of these tracts within the near term will help evaluate our acreage. Sunlite's net interest in Block 31 is 6.67 percent.

MISSISSIPPI

Last year we reported that Sunlite acquired a carried working interest in certain properties in the Waveland Field, Hancock County, Mississippi. Sunlite has a varying interest in approximately 20 wells in the field averaging about 2 percent. Currently these wells are producing about 50 million cubic feet of gas per day and 1,000 barrels per day condensate. We expect payout to occur on this property next spring.

ALASKA

Sunlite owns a 1 percent working interest in approximately 4,480 acres which have been dedicated to the Duck Island Unit. We expect a well to be drilled on this prospect next year.



NORTH SEA

- Sunlite Working Interest
- ★ Gas Well
- Location or Drilling Well
- ◇ Abandoned

INTERNATIONAL

Umm Al Qaiwain: As previously reported, Sunlite has a small interest in a gas discovery well in Umm Al Qaiwain.

Because of the high cost of diesel fuel in the Persian Gulf which is used in portions of the United Arab Emirates for electrical generation we have obtained the interest of the Ruler of Umm Al Qaiwain in a proposal to buy gas from the well which made a substantial gas discovery well. We are currently negotiating to put this well on production and distribute this gas both to Umm Al Qaiwain and other Emirates in the south end of the Gulf. No additional wells are contemplated unless the market develops beyond the capacity of the existing well. Economically this should be considered a salvage operation.

Germany: As reported last year, Union Texas drilled a well on the Jade Plate Concession off Wangerooge Island which was bottomed at 8,950 feet and plugged and abandoned. This concession will now be dropped. Sunlite has farmed out its interest in Block J-14 and a Rotliegendes test may be drilled on this block. Our remaining Germany acreage can now be considered tested and we plan to drop these concessions.

Cameroon: Sunlite has a 2½ percent interest in a concession offshore Cameroon near the Nigerian border. This concession has been farmed out to major company operators to perform seismic work and drill an exploratory well. We have recently been advised that a well is planned next spring to test a number of objective Miocene sands which are productive in the area. Sunlite has reduced its original 5 percent position down to 2½ percent in exchange for seismic work performed by the farmors. We plan to further reduce our interest to 1¼ percent for the drilling of the first exploratory well at no cost to Sunlite. Other structures are present on the concession which may also be drilled next year.

Holland: On Block P/6 a Bunter sand discovery was made in well P/6-4 which flowed at rates up to 33.5 million cubic feet per day. Following this important discovery which was a new pay on the block, P/6-1 was re-entered and flowed 33½ million cubic feet per day from the Bunter. A third well P/6-5 has been tested in the Bunter flowing 25.4 million cubic feet per day. We now believe that the field will be declared to be commercial with potential reserves between 500 billion and a trillion cubic feet of gas. Plans are being made to place this field on production in 1982-83. It will be recalled that Sunlite now has 1¼ percent net

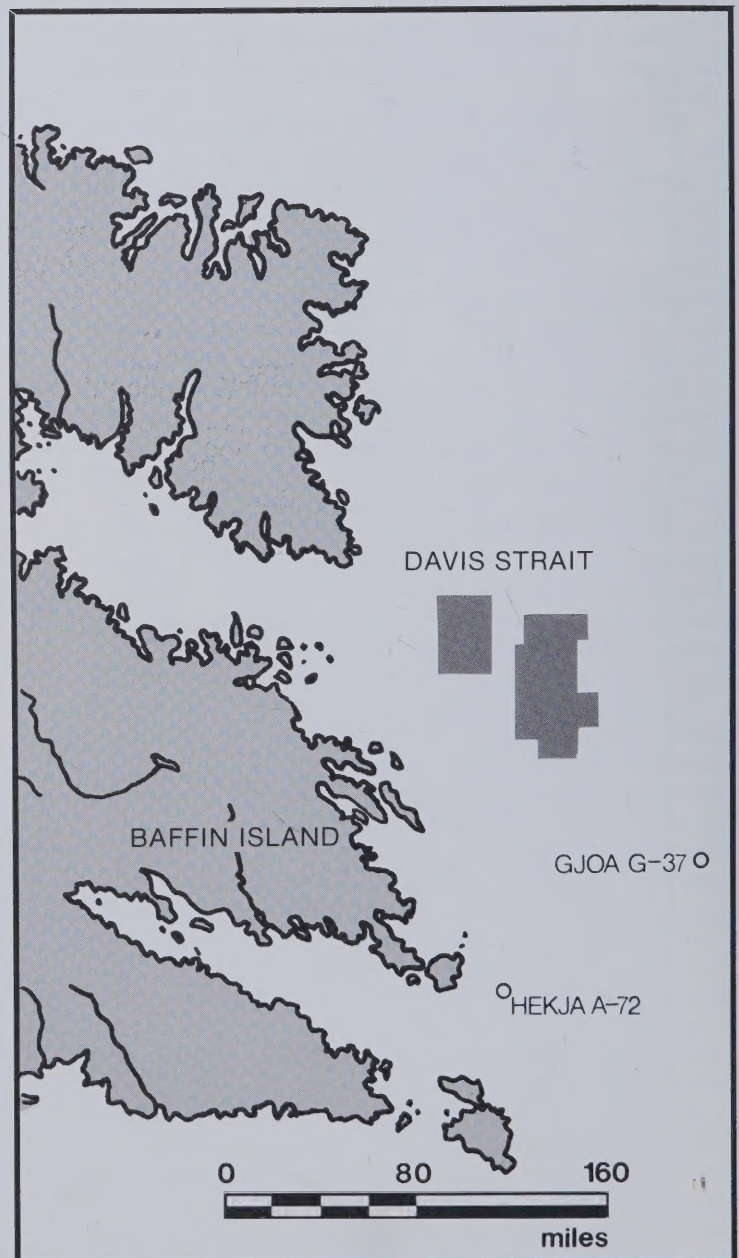
profits interest in this block. We expect that the Government will exercise their option to buy a 40 percent interest in the field, reducing Sunlite's net profits interest to .75 percent. Even though this is a small interest the economic impact on Sunlite will be substantial. Depending on gas prices at the time the field goes on stream we estimate that Sunlite's cash flow will be more than one million dollars a year.

ARCTIC AND EAST COAST

There has been no further activity on the Company's holdings in Ellesmere and Axel Heiberg Islands in the high Arctic. It is anticipated that these holdings will be surrendered.

In the Baffin Bay area on the east coast of Canada where Sunlite holds a one (1) percent overriding royalty on 1.8 million acres, two tests were drilled. One exploratory well, Esso, et al Gjoa G-37 drilled about 75 miles southeast of our acreage was drilled to 13,113 feet and reportedly was abandoned as a dry hole. The second well, Aquitaine, et al Hekja A-72, located one hundred miles to the south of our Baffin Bay block is reported to be currently testing at a depth of 9,968 feet. Projected depth is 15,400 feet.

A major oil company has undertaken to carry work credits on the Baffin Bay block holdings with an option to commit within two years to drill an exploratory test.



BAFFIN ISLAND

■ Sunlite Royalty Interest

AUDITORS' REPORT

To the Shareholders of
Sunlite Oil Company Limited

We have examined the consolidated balance sheet of Sunlite Oil Company Limited as at June 30, 1979 and 1978 and the consolidated statements of earnings, deficit and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As described in Note 2, the company is involved in litigation the outcome of which cannot presently be determined.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matter referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at June 30, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
September 7, 1979

Thorne Riddell Co.

Chartered Accountants

Sunlite Oil Company Limited

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1978 AND 1979

ASSETS

	<u>1979</u>	<u>1978</u>
CURRENT ASSETS		
Cash	\$ 621,052	\$ 458,689
Accounts receivable (notes 2 and 3)	<u>762,172</u>	<u>1,056,959</u>
	<u>1,383,224</u>	<u>1,515,648</u>
PROMISSORY NOTES (note 3)	<u>396,800</u>	<u>681,600</u>
FIXED ASSETS		
Petroleum and natural gas leases, and rights together with development and equipment thereon		
Producing, at cost	3,788,906	3,479,617
Accumulated depletion and depreciation	<u>1,259,512</u>	<u>1,064,236</u>
	<u>2,529,394</u>	<u>2,415,381</u>
Non-producing, at cost		
Leases	1,969,669	1,901,027
Royalty rights	641,305	658,989
Capped wells and work in progress	<u>3,274,982</u>	<u>3,302,044</u>
	<u>8,415,350</u>	<u>8,277,441</u>
OTHER ASSETS	<u>12,672</u>	<u>15,220</u>
	<u><u>\$10,208,046</u></u>	<u><u>\$10,489,909</u></u>

LIABILITIES

	<u>1979</u>	<u>1978</u>
CURRENT LIABILITIES		
Bank loan	\$ —	\$ 555,000
Accounts payable	470,050	477,065
Current maturities on long-term debt	<u>175,380</u>	<u>—</u>
	<u>645,430</u>	<u>1,032,065</u>
LONG-TERM DEBT (note 4)	<u>2,103,734</u>	<u>1,557,910</u>
DEFERRED INCOME TAXES	<u>590,485</u>	<u>512,085</u>


SHAREHOLDERS' EQUITY

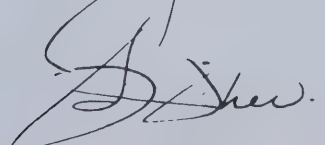
CAPITAL STOCK (note 5)		
Authorized		
6,000,000 shares without nominal or par value		
Issued 2,992,412 shares (2,984,770 shares in 1978)	11,247,350	11,234,257
DEFICIT	<u>(4,378,953)</u>	<u>(3,846,408)</u>
	<u>6,868,397</u>	<u>7,387,849</u>

\$10,208,046

\$10,489,909

SIGNED ON BEHALF OF THE BOARD:

 Director

 Director

Sunlite Oil Company Limited

CONSOLIDATED STATEMENT OF EARNINGS YEARS ENDED JUNE 30, 1978 AND 1979

	<u>1979</u>	<u>1978</u>
REVENUE		
Oil and gas sales	\$ 1,601,388	\$ 1,415,204
Property sales	25,164	82,829
Investments	79,141	75,141
	<u>1,705,693</u>	<u>1,573,174</u>
EXPENSES		
Well operating	284,023	311,364
General and administrative	662,568	671,977
Carrying charges on non-producing properties	97,428	82,146
Dry hole costs	263,679	197,915
Exploration	133,471	116,839
Property surrenders and write-offs	366,412	1,206,554
Interest on long-term debt	148,583	36,447
Other interest	29,755	48
Depletion and depreciation	215,319	259,675
	<u>2,201,238</u>	<u>2,882,965</u>
Loss before income taxes	<u>(495,545)</u>	<u>(1,309,791)</u>
Recovery of (provision for) income taxes		
Current	41,400	27,091
Deferred	(78,400)	(66,448)
	<u>(37,000)</u>	<u>(39,357)</u>
LOSS FOR THE PERIOD	<u>\$ (532,545)</u>	<u>\$ (1,349,148)</u>
LOSS PER SHARE (based upon weighted average number of shares outstanding)	<u>\$(.18)</u>	<u>\$(.45)</u>

CONSOLIDATED STATEMENT OF DEFICIT YEARS ENDED JUNE 30, 1978 AND 1979

	<u>1979</u>	<u>1978</u>
DEFICIT AT BEGINNING OF PERIOD	\$ (3,846,408)	\$(2,497,260)
Loss for the period	<u>(532,545)</u>	<u>(1,349,148)</u>
DEFICIT AT END OF PERIOD	<u>\$ (4,378,953)</u>	<u>\$ (3,846,408)</u>

Sunlite Oil Company Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEARS ENDED JUNE 30, 1978 AND 1979

	<u>1979</u>	<u>1978</u>
WORKING CAPITAL DERIVED FROM		
Operations		
Loss for the year	\$ (532,545)	\$ (1,349,148)
Add (deduct) items not requiring working capital:		
Depletion and Depreciation	215,319	259,675
Deferred income taxes	78,400	66,448
Disposition of property interests		
Nonproducing leases	340,216	318,665
Capped wells and work in progress	119,285	958,999
Sale of leases	(25,164)	(82,829)
	<u>195,511</u>	<u>171,810</u>
Reduction in notes receivable	284,800	149,500
Proceeds on sale of fixed assets	48,092	488,541
Issue of capital stock (note 5)	13,093	16,032
Proceeds from long term debt	821,050	999,000
Other	2,548	
	<u>1,365,094</u>	<u>1,824,883</u>
WORKING CAPITAL APPLIED TO		
Acquisition of fixed assets	835,657	2,263,744
Repayment of gas contract advances	99,846	164,731
Reclassification of notes receivable		240,000
Current maturities on long term debt	175,380	
	<u>1,110,883</u>	<u>2,668,475</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 254,211</u>	<u>\$ (843,592)</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
INCREASE (DECREASE) IN CURRENT ASSETS		
Cash	\$ 162,363	\$ (178,682)
Accounts receivable	(294,787)	(92,590)
	<u>(132,424)</u>	<u>(271,272)</u>
(INCREASE) DECREASE IN CURRENT LIABILITIES		
Bank loan	\$ 555,000	\$ (555,000)
Accounts payable	7,015	(17,320)
Current maturities on long term debt	(175,380)	
	<u>386,635</u>	<u>(572,320)</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 254,211</u>	<u>\$ (843,592)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1978 AND 1979

NOTE 1 — ACCOUNTING POLICIES

(a) Principles of Consolidation — The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, Sunlite International Inc., and Sunlite Oil Company (U.K.) Limited.)

Amounts in foreign currency are converted to Canadian dollars on the following bases:

- (i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
- (ii) Other assets and liabilities, at the rate of exchange in effect at the time the original transactions took place.
- (iii) Other expenses and revenues, excluding depletion and depreciation which are converted at the rate of exchange applicable to the related asset, at the average rate of exchange for the year.

(b) Petroleum and Natural Gas Properties — The cost of acquisition of leases and royalty rights, including drilling expenditures and exploratory dry holes which earn an interest, are capitalized. Costs are charged to earnings when properties are surrendered or are determined to be of decreased value. The costs of producing leases and royalty interests are amortized using the unit of production method.

Exploration expenses, other than dry holes which earn an interest, and carrying charges of both producing and nonproducing properties are charged to earnings as incurred. The costs of drilling a productive well, including the cost of production equipment, are capitalized and amortized using the unit of production method. The cost of an unproductive well is charged to earnings when determined to be dry.

(c) Income taxes — The companies follow the tax allocation method of accounting for income taxes under which the income tax provision is based upon earnings reported in the accounts.

NOTE 2 — ACCOUNTS RECEIVABLE

Included in accounts receivable at June 30, 1978 is an amount of \$190,000 U.S. representing the amount due on sale of mineral properties. During October, 1971, the Company commenced legal action to collect the amount.

The Company's claim was denied by a trial decision dated June 26, 1978. The Trial Judge also awarded the defendants its counterclaim for 50% of its expenditures during the period in which it operated the mining properties. The amount awarded is to be ascertained by audit but in the opinion of the Company's legal counsel, the amount should not exceed \$150,000 U.S. Both of the above decisions have been appealed. During the year ended June 30, 1979, the Company made full provision in its accounts for the possible noncollectibility of the accounts receivable but has not provided for the possible liability arising from the counter claim.

NOTE 3 — PROMISSORY NOTES

	<u>1979</u>	<u>1978</u>
Due from officers and directors in 1983 and 1984, non interest bearing	\$220,000	\$340,000
Non-interest bearing notes, receivable in equal annual installments to July 1, 1980 (less discount for 10% imputed interest)	<u>341,600</u>	<u>491,100</u>
	561,600	831,100
Current maturity included in accounts receivable	<u>164,800</u>	<u>149,500</u>
	<u>\$396,800</u>	<u>\$681,600</u>

An extension of five years was granted to an officer and director for repayment of a note due on July 1, 1979 in the amount of \$100,000. A fee of ½ of 1% per year was charged for the extension.

NOTE 4 — LONG-TERM DEBT

	<u>1979</u>	<u>1978</u>
Term bank loan, due in 1982, bearing interest at a bank prime lending rate plus 2% and secured by a right to attach certain oil and gas properties	\$ 709,230	\$
Gas contract advances, repayable from 50% of future gas sales from certain wells and secured by the specific properties	92,460	189,310
Convertible note payable (including accrued interest in 1979 of \$47,649), at Canadian dollar equivalent of \$350,000 U.S., bearing interest at 125% of a bank prime lending rate and due January 20, 1980 (see Note 5)	417,249	369,600
6% notes payable (including accrued interest in 1979 of \$52,295), at Canadian dollar equivalent of \$900,000 U.S., repayable in varying amounts, secured by certain oil and gas properties and due July 5, 1982	<u>1,060,175</u>	<u>999,000</u>
	2,279,114	1,557,910
Less current maturities included in current liabilities	<u>175,380</u>	<u></u>
	<u>\$2,103,734</u>	<u>\$1,557,910</u>

The estimated amounts of long-term debt maturities for the five years subsequent to 1979 are as follows: 1980 — \$175,380; 1981 — \$294,931; 1982 — \$945,175; 1983 — \$353,919; 1984 — Nil.

NOTE 5 — CAPITAL STOCK

	<u>Number of Shares</u>	<u>Considera- tion</u>
Balance at June 30, 1977	2,976,313	\$11,218,225
Shares issued on exercise of stock options	<u>8,457</u>	<u>16,032</u>
Balance at June 30, 1978	2,984,770	11,234,257
Shares issued on exercise of stock options	<u>7,642</u>	<u>13,093</u>
Balance at June 30, 1979	<u>2,992,412</u>	<u>\$11,247,350</u>

(a) Share subscription agreement — Pursuant to an agreement dated May 27, 1976, Sunlite received from Mesa Petroleum Co. \$350,000 (U.S.) cash for a promissory note of the Company (bearing interest at 125% of a bank prime lending rate) redeemable at the Company's discretion for cash; alternatively, the Company may, at date of maturity, convert the principal amount of the note then outstanding into fully paid common stock at \$5.00 (U.S.) per share. The accrued interest on the note at date of maturity is to be paid by way of common shares issued at a price to be determined based upon the market value of such shares at date of maturity. Mesa can at its discretion convert the promissory note to fully paid shares of common stock at \$5.00 (U.S.) per share. The agreement expires on January 20, 1980 (extended in 1978 by two years). If the note is converted, the issue of the additional 70,000 shares to Mesa would increase Mesa's holdings to 554,878 shares, representing 18.5% of the then outstanding common stock of the Company, assuming no other issuances of such shares.

(b) Stock options — As at June 30, 1979, there were 125,426 common shares of the Company (June 30, 1978 — 137,275 common shares) reserved for exercise from time to time to 1981, of employee stock options at prices ranging from \$2.66 to \$3.66 per share. The exercise prices were equal to or greater than the market price of the shares at the date of granting. As at June 30, 1979, 3,676 of these options (June 30, 1978 — 10,400) are exercisable as "market growth" options under which the optionee is not required to make a cash payment and receives shares on the excess of the market value at the date of exercise over the option price. Changes in the number of optioned shares were as follows:

	<u>Officers and Directors</u>	<u>Other Employees</u>	<u>Total</u>	<u>Consideration</u>
Outstanding at June 30, 1977	136,500	11,000	147,500	
Reclassification	9,500	(9,500)		
Exercised at \$2.42 to \$2.75	<u>(10,225) (1)</u>		<u>(10,225)</u>	\$16,032
Outstanding at June 30, 1978	135,775	1,500	137,275	
Cancelled at \$3.33	(3,102)		(3,102)	
Exercised at \$2.42 to \$3.33	<u>(8,747) (2)</u>		<u>(8,747)</u>	\$13,093
Outstanding at June 30, 1979	<u>123,926</u>	<u>1,500</u>	<u>125,426</u>	

(1) Exercise of "market growth options" on 3,600 options resulted in the issuance of 1,832 shares.

(2) Exercise of "market growth options" on 3,622 options resulted in the issuance of 2,517 shares.

NOTE 6 — REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid during the year ended June 30, 1979 to directors and senior officers totalled \$217,586 (June 30, 1978 — \$ 215,000).

Sunlite Oil Company Limited

SUMMARY OF OPERATIONS

FOR THE YEAR ENDED

	June 30, 1979	June 30, 1978	June 30, 1977 (unaudited)
REVENUE			
Oil and Gas Sales	\$ 1,601,000	\$ 1,415,000	\$ 1,576,000
Lease Sales	25,000	83,000	—
Investments	79,000	75,000	166,000
Other	—	—	—
	<u>1,705,000</u>	<u>1,573,000</u>	<u>1,742,000</u>
EXPENSES			
Well Operating	284,000	311,000	286,000
General and Administrative	663,000	672,000	663,000
Carrying charges on non-producing properties	97,000	82,000	86,000
Exploration and dry hole costs	398,000	315,000	1,021,000
Property Surrenders and Write-offs	366,000	1,207,000	993,000
Other interest	30,000	—	2,000
Interest on long term debt	148,000	36,000	—
Depletion and Depreciation	215,000	260,000	277,000
	<u>2,201,000</u>	<u>2,883,000</u>	<u>3,328,000</u>
Earnings (Loss) before income taxes and extraordinary item	<u>(496,000)</u>	<u>(1,310,000)</u>	<u>(1,586,000)</u>
Recovery of (provision for) income taxes			
Current	41,000	27,000	54,000
Deferred	(78,000)	(66,000)	185,000
	<u>(37,000)</u>	<u>(39,000)</u>	<u>239,000</u>
Earnings (Loss) before extraordinary item	<u>(533,000)</u>	<u>(1,349,000)</u>	<u>(1,347,000)</u>
Realization of tax benefit of prior losses	<u>—</u>	<u>—</u>	<u>—</u>
NET EARNINGS (LOSS)	<u>\$ (533,000)</u>	<u>\$ (1,349,000)</u>	<u>\$ (1,347,000)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>2,987,537</u>	<u>2,977,642</u>	<u>2,975,813</u>
NET EARNINGS (LOSS) PER SHARE	<u>\$(.18)</u>	<u>\$(.45)</u>	<u>\$(.45)</u>

<u>Nine Months</u> <u>June 30,</u> <u>1977</u>	<u>FOR THE YEAR ENDED</u>		
	<u>Sept. 30,</u> <u>1976</u>	<u>Sept. 30,</u> <u>1975</u>	<u>Sept. 30,</u> <u>1974</u>
\$ 1,195,000	\$ 1,143,000	\$ 711,000	\$ 446,000
—	81,000	—	778,000
136,000	215,000	267,000	294,000
—	—	4,000	15,000
<u>1,331,000</u>	<u>1,439,000</u>	<u>982,000</u>	<u>1,533,000</u>
195,000	185,000	96,000	74,000
528,000	531,000	445,000	464,000
71,000	69,000	132,000	67,000
686,000	1,258,000	385,000	208,000
238,000	911,000	498,000	121,000
2,000	1,000	—	1,000
—	—	—	—
<u>186,000</u>	<u>239,000</u>	<u>103,000</u>	<u>110,000</u>
<u>1,906,000</u>	<u>3,194,000</u>	<u>1,659,000</u>	<u>1,045,000</u>
<u>(575,000)</u>	<u>(1,755,000)</u>	<u>(677,000)</u>	<u>488,000</u>
33,000	65,000	40,000	(409,000)
<u>(17,000)</u>	<u>247,000</u>	<u>219,000</u>	<u>94,000</u>
<u>16,000</u>	<u>312,000</u>	<u>259,000</u>	<u>(315,000)</u>
(559,000)	(1,443,000)	(418,000)	173,000
—	—	—	410,000
<u>\$ (559,000)</u>	<u>\$ (1,443,000)</u>	<u>\$ (418,000)</u>	<u>\$ 583,000</u>
<u>2,975,925</u>	<u>2,860,748</u>	<u>2,671,384</u>	<u>2,466,156</u>
<u>\$(.19)</u>	<u>\$(.50)</u>	<u>\$(.16)</u>	<u>\$.24</u>

Sunlite Oil Company Limited

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED SUMMARY OF OPERATIONS

1979 Compared to 1978

Revenue from oil and gas sales increased \$186,000 or 13% over 1978. This increase is attributable to the higher prices on the sale of oil and gas. Lease sales decreased by \$58,000 during 1979. 1978 lease sales reflected profits realized on the farm-out of certain Texas leases whereby the Company recovered 100% of its costs and in addition retained a royalty interest.

Exploration and dry hole costs increased \$83,000 during the current year. Dry hole costs accounted for approximately 79% of the increase and reflect the costs of unsuccessful wells drilled primarily in Alberta, Canada and Texas under the Company's drilling program.

Property surrenders and write-offs decreased \$841,000 during 1979 as compared to 1978. Current period surrenders and write-offs reflect the expiration of leases and other interests where projected economics did not support further expenditures. During the period an amount receivable relating to the disposal of certain mineral interests amounting to \$190,000 have been written-off as a result of an adverse court ruling currently being appealed by the Company. Additionally, the Company has written-off the costs of certain oil and gas properties in Alaska and Texas amounting to \$64,000 and \$40,000 respectively as well as \$28,000 relating to interests in the German North Sea. Write-offs and surrenders during the prior period included interests in Ras al Khaimah and on Block Q/7 in the Dutch North Sea amounting to \$675,000 and \$216,000 respectively.

Interest expense increased \$142,000 during 1979 as compared to 1978 primarily as a result of the Company's increase in long term indebtedness.

Depletion and depreciation decreased \$45,000 due primarily to a decrease in current years production volume; the basis by which the company computes cost depletion.

Working capital was \$738,000 at June 30, 1979 compared to \$484,000 at June 30, 1978. During 1979 the Company refunded its short term bank loans with long term notes under a revolving credit agreement with maturities beginning in 1982.

1978 Compared to 1977

1978 income from oil and gas sales was \$1,415,000, a decrease of 10% from the previous year. The reduction, although partially offset by price increases, was due to a reduction in production levels due mainly to a reduction in government production allowables and to some extent due to lower well productivity. Lease sales during 1978 resulted from the sale of the Company's working interest in certain Texas leases whereby Sunlite retained an overriding royalty interest. Investment income, income from temporary investments decreased to reflect the withdrawal of funds from investments to meet exploration obligations.

Exploration costs totalling \$117,000 included the cost of seismic programs in Alberta in the amount of \$14,000 and in the UK and Dutch sectors of the North Sea in the amount of \$46,000 and the cost of inventory write-downs in the UK North Sea exploration group in the amount of \$57,000. Dry hole costs primarily reflect the cost of an unsuccessful confirmation well in Umm Al Qaiwain.

Property surrenders and write-offs amounted to \$1,207,000 and included the write-off of interests in Ras al Khaimah of \$675,000; write-off of interests in Dutch North Sea Block Q/7 in the amount of \$216,000, and the write-off of certain leases in Alaska and Texas in the amounts of \$142,000 and \$147,000 respectively. Additionally, the Company wrote-off other oil and gas and coal rights costing \$27,000.

Interest expense on long term debt increased to reflect the Company's additional borrowings.

The income tax provision amounted to \$39,000 for the year ended June 30, 1978 and, the recoveries amounted to \$239,000 for the year ended June 30, 1977 reflecting an increase in taxes of \$278,000. Losses of subsidiaries on which no Canadian tax benefits are recorded are mainly responsible for the change in the provision.

Working capital was \$484,000 at June 30, 1978 compared to \$1,327,000 at June 30, 1977. Working capital decreased by \$843,000 reflective of increases in short term bank loans by the Company and the reclassification of notes receivable from current assets to promissory notes a non-current item.

PRICE RANGE OF COMMON STOCK ON VANCOUVER STOCK EXCHANGE

	Year Ended June 30, 1979		Year Ended June 30, 1978	
	High	Low	High	Low
First Quarter — July 1 — Sept. 30	\$13.75	\$ 4.85	\$ 3.45	\$ 3.00
Second Quarter — Oct. 1 — Dec. 31	\$17.00	\$ 6.00	\$ 5.15	\$ 3.50
Third Quarter — Jan. 1 — Nov. 31	\$12.75	\$ 8.50	\$ 4.75	\$ 3.65
Fourth Quarter — Apr. 1 — June 30	\$19.00	\$10.25	\$ 6.75	\$ 4.40

SUMMARY OF RESERVES AND PRODUCTION

	CRUDE OIL		NATURAL GAS	
	Production	Reserves	Production	Reserves
	Barrels Per Day	Barrels, net before royalties	Thousands of cubic feet per day	Thousands of cubic feet, net before royalties
June 30, 1979:				
Canada	104	328,000	1,899	26,237,000
United States of America	11	15,000	307	832,000
Foreign	—	—	—	16,313,000
	<u>115</u>	<u>343,000</u>	<u>2,206</u>	<u>43,382,000</u>
June 30, 1978:				
Canada	115	366,000	2,136	26,930,000
United States of America	13	19,000	364	944,000
Foreign	—	—	—	16,313,000
	<u>128</u>	<u>385,000</u>	<u>2,500</u>	<u>44,187,000</u>

Directors

J. FARMER,
Vice President — Gulf Coast Div.
Mesa Petroleum Co.
Houston, Texas
J. STEWART FISHER,
Barrister and Solicitor
Didsbury, Alberta
GAINES L. GODFREY,
Vice President — Finance
Mesa Petroleum Co.
Amarillo, Texas
JIM L. HUDSON,
General Manager
Mesa Petroleum (N.A.) Co.
Calgary, Alberta
EDWIN C. JAMES,
President of the Company
Houston, Texas
DONALD O. MacARTHUR,
Land Manager of the Company
Calgary, Alberta

Officers

EDWIN C. JAMES,
President
DONALD E. HOCKADAY, Jr.,
Executive Vice President
J. STEWART FISHER,
Secretary
JAMES A. KING III,
Vice President — Finance
E. CHRISTA HINOJOSA,
Assistant Secretary

Executive Office

1200 Smith
2740 Two Allen Center
Houston, Texas 77002

Canadian Office

1517 Norcen Tower
715 - 5 Avenue S.W.
Calgary, Alberta T2P2X6

Subsidiary Companies

SUNLITE INTERNATIONAL INC.
SUNLITE OIL COMPANY
(U.K.) LIMITED

Bankers

CANADIAN IMPERIAL BANK
OF COMMERCE
Calgary, Alberta
CONTINENTAL ILLINOIS
NATIONAL BANK
Chicago, Illinois
CAPITAL NATIONAL BANK
Houston, Texas

Auditors

THORNE RIDDELL & CO.

Solicitors

J. S. FISHER
Didsbury, Alberta
KRIST & ASSOCIATES
Houston, Texas

Transfer Agent

THE CANADA TRUST COMPANY
Calgary, Alberta
FIRST NATIONAL CITY BANK
New York, New York

Common Shares Listed

VANCOUVER STOCK EXCHANGE
(Symbol — SLTV)
OTC — NASDAQ LIST
(Symbol — SNLTF)

